



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Fiscal Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary, Finance and Administration Cabinet
Gene Wilhoit, Commissioner, Department of Education
Robert S. Sherman, Director, Legislative Research Commission
Bernard Sandfoss, Executive Director
Northern Kentucky Cooperative for Educational Services, Inc.
Board of Directors of the Northern Kentucky Cooperative for Educational Services, Inc.

The enclosed report prepared by Charles T. Mitchell Company, LLP, Certified Public Accountants, presents the financial statements of the Northern Kentucky Cooperative for Educational Services, Inc., Highland Heights, Kentucky, as of June 30, 2000.

We engaged Charles T. Mitchell Company, LLP, to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Charles T. Mitchell Company, LLP, evaluated the Northern Kentucky Cooperative for Educational Services, Inc.'s internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.

FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

June 30, 2000

EXECUTIVE SUMMARY

Northern Kentucky Cooperative for Educational Services, Inc.
Fiscal Year Ended June 30, 2000

An audit of the Northern Kentucky Cooperative for Educational Services, Inc. for fiscal year ended June 30, 2000 has been completed. No reportable conditions relating to the financial statement were disclosed.

The management letter disclosed the following areas of recommendation:
Securities need to be pledged to insure the cash balances beyond the FDIC's insurance amount of \$100,000.

A cash basis financial statement audit was performed on the prior year financial statements, therefore no opinion was issued on the statement of activities and cash flows for the fiscal year ended June 30, 2000. Management was not able to provide financial statements to be audited therefore the State Auditor compiled the financial statements for the fiscal year end June 30, 2000.

An unqualified opinion was issued on the Statement of Financial position.

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Statements	
Combined Statement of Financial Position	2
Combined Statement of Activity	3
Combined Statement of Cash Flows	4
Notes to the Financial Statements	5-7
Supplemental Schedules	
Statement of Financial Position - By Fund	8-9
Statement of Activity - By Fund	10-11
Independent Auditor's Report on Compliance and Internal Controls Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	12
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	13
Schedule of Federal Awards Expenditures	14
Schedule of Findings and Questioned Costs	15

INDEPENDENT AUDITOR'S REPORT

Northern Kentucky Cooperative for Educational Services, Inc.
Highland Heights, Kentucky

We have audited the accompanying combined statement of financial position of the Northern Kentucky Cooperative for Educational Services, Inc. as of June 30, 2000 and the related combined statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the note 1 to the financial statements, Northern Kentucky Cooperative for Educational Services, Inc. reports expenditures for equipment according to prescribed procedures of grant contract terms. These procedures differ from generally accepted accounting principles as the equipment expenditures are not depreciated. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles. In addition, the prior financial statements were presented using the cash basis of accounting. This basis materially affects the determination of the results of operations using grant funds. Therefore, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying statement of activities and cash flows for the year ended June 30, 2000.

In our opinion, the statement of financial position referred to in the first paragraph presents fairly, in all material respects, the financial position of the Northern Kentucky Cooperative for Educational Services, Inc. as of June 30, 2000 in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued a report dated November 18, 2000 on our consideration of Northern Kentucky Cooperative for Educational Services, Inc.'s internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants.

Our audit was made primarily for the purpose of formulating the opinion stated in the preceding paragraph. The supplemental schedules included in this report, although not considered necessary for a fair presentation of financial position and results of operations, are presented as supplementary information and have been subjected to the audit procedures applied to the basic financial statements taken as a whole.

Charles F. Mitchell

November 18, 2000

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2000

ASSETS

Cash and Cash Equivalents	\$ 144,164
Grant Funds Receivable	69,531
Accounts Receivable	56,839
Net Property, Plant and Equipment	<u>4,853</u>

TOTAL ASSETS	<u>\$ 275,387</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 64,455
Deferred Revenue	<u>164,344</u>

TOTAL LIABILITIES	\$ 228,799
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NET ASSETS

Unrestricted	<u>\$ 46,588</u>
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Total Net Assets	<u>46,588</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 275,387</u>
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The accompanying notes are an integral part of these financial statements.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
 COMBINED STATEMENT OF ACTIVITY
 For The Year Ended June 30, 2000

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Membership Dues Program Services	\$ 662,435	\$ 996,812	\$1,659,247
Earnings on Investments	799	1,205	2,004
Other Revenues	965	10,973	11,938
Intergovernmental - State		716,570	716,570
Intergovernmental - Federal		454,323	454,323
Net Assets Released from Restrictions			
Satisfaction of Purpose Restrictions	<u>2,179,883</u>	<u>(2,179,883)</u>	<u> </u>
TOTAL SUPPORT AND REVENUE	<u>\$ 2,844,082</u>	<u>\$ 0</u>	<u>\$2,844,082</u>
EXPENDITURES			
Personnel	\$ 1,527,012	\$	\$1,527,012
Audits	5,480		5,480
Contracted Services	672,059		672,059
Tech Serv	118,190		118,190
Repairs & Maintenance	17,369		17,369
Rental Fees	2,251		2,251
Student Transportation	228		228
Property Insurance	8,457		8,457
Phone	17,894		17,894
Postage	8,009		8,009
Advertising	2,712		2,712
Printing	30,116		30,116
Travel	50,638		50,638
Lodging	17,871		17,871
General Supplies	65,657		65,657
Food Services	15,173		15,173
Books/Periodicals	24,450		24,450
Student Activities	12,941		12,941
Supplies/Materials	20,599		20,599
Equipment	37,912		37,912
Dues & Fees	41,222		41,222
Miscellaneous	110,889		110,889
Depreciation	1,213		1,213
Indirect Costs	<u>28,082</u>	<u> </u>	<u>28,082</u>
TOTAL EXPENDITURES	<u>\$ 2,836,424</u>	<u>\$ 0</u>	<u>\$2,836,424</u>
Change in Net Assets	<u>\$ 7,658</u>	<u>\$</u>	<u>\$ 7,658</u>
Net Assets, Beginning of Year	\$ 69,464	\$ (30,534)	\$ 38,930
Adjustment	<u>(30,534)</u>	<u>30,534</u>	<u> </u>
Net Assets, Restated	<u>\$ 38,930</u>	<u>\$ 0</u>	<u>\$ 38,930</u>
Net Assets, End of Year	<u>\$ 46,588</u>	<u>\$</u>	<u>\$ 46,588</u>

The accompanying notes are an integral part of these financial statements.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
 COMBINED STATEMENT OF CASH FLOWS
 For The Year Ended June 30, 2000

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

Change in Net Assets \$ 7,658

Adjustments to reconcile change in net assets
 to net cash provided by operating activities:

Depreciation	\$ 1,213	
(Increase) in Grant Funds Receivable	(69,531)	
(Increase) in Accounts Receivable	(56,839)	
Increase in Accounts Payable	64,455	
Increase in Deferred Revenue	<u>164,344</u>	

Total Adjustments		<u>103,642</u>
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Net Cash Provided by Operating Activities		\$ 111,300
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CASH FLOWS USED FOR INVESTING ACTIVITIES

Net Purchases of Equipment	\$ (6,066)	
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Net Cash Used by Investing Activities		<u>(6,066)</u>
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NET INCREASE IN CASH		\$ 105,234
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CASH AND CASH EQUIVALENTS, Beginning of Year		<u>38,930</u>
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CASH AND CASH EQUIVALENTS, End of Year		<u>\$ 144,164</u>
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DISCLOSURE OF ACCOUNTING POLICY

For the purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northern Kentucky Cooperative for Educational Services, Inc. (the "Cooperative") is a non-profit corporation established to coordinate and administer federal programs for participating Kentucky local school districts; to provide centralized purchasing benefits to the districts; to respond to identified needs of handicapped children served by local education agencies; and to provide for the delivery of special education services by joint agreement with the local education agencies.

Funds to operate the Cooperative are obtained primarily from grant awards from the Kentucky Department of Education and through membership dues paid by local educational districts. Funding for the Cooperative's programs is also provided under the Individuals with Disabilities Education Act, Part B, Discretionary Grant Program and the Perkins Vocational and Applied Technology Education Grant.

All grants are restricted, and may be used only for purposes specified by the grantor. Each grantor requires separate reporting of support and expenditures and changes in net assets applicable to its funding.

The Cooperative also restricts the use of grants received from state and local sources. These grants are listed also as temporarily restricted until restrictions have been satisfied and revenues and expenditures are recognized as such.

The Cooperative prepares its financial statements using the accrual method. However, disbursements for equipment are shown as expenditures at the time of purchase, unless expended from the unrestricted assets. These procedures are applied according to grant contract terms, but do differ from generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - PROGRAM DESCRIPTIONS

The Phoenix Program - The Phoenix Program is a regional program serving the most severe students with emotional and behavioral disabilities. This program, like all other cooperative programs, is under the direction of the advisory committee consisting of superintendents and special education directors. Part of the funding is received from the Kentucky Education Consortium of State Agency Children (KASAC). The funds are based on a formula of the number of eligible children served in the program.

Special Education Consortium - All sixteen-member districts participate in the Special Education Consortium. The Kentucky Department of Education awards the federal IDEA state-share restricted funds to the Cooperative based upon a grant proposal presented to them in March. This proposal is based on the approval of the Board of Directors. The focus of the budget is on direct services to children. These services include occupational therapy, physical therapy, speech therapy, medical evaluations, tuition and transportation costs. Technical assistance is also included. Districts determine how these funds are to be used to provide for the unmet needs of exceptional children.

First Steps Project - The First Steps project is totally funded and the Cabinet for Families and Children/Division of Mental Retardation sets the budget. Three staff members are employed through this grant project which focuses on infants and toddlers with special needs and program monitoring. The project is designed to provide technical assistance and parent support for service providers and families participating in the project.

Learning Academy - Eleven districts participate in this regional alternative school program which is housed in the Newport, Campbell County and Erlanger-Elsmere school districts. The program serves seventy-nine students in grades 4-12 who have problems in the traditional school program and are at-risk for academic failure and dropping out of school. The project has obtained phenomenal success and is recognized across the Commonwealth as an exemplary program. Part of the funding is provided through a grant from the Center for School Safety.

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2000

Carl Perkins Consortium - Perkins funds were used to improve vocational education programs in the consortium districts. These are districts whose basic allotments are less than \$15,000 and must pool their allocations. Funds are used to purchase equipment, to upgrade curriculum to better align with vocational mandates of KERA; improve and update technology programs and staff development programs provided to implement assessment plans, teaching strategies and developing appropriate Individual Student Vocational Plans.

Flexible Spending Accounts Management - Employees from fifteen districts plus the Cooperative have an option of participating in the Flexible Spending Accounts program. A Board of Governors consisting of representatives from participating districts oversees the operation of the Flex Plan program. It should also be noted that the Flex Plan falls under the umbrella of all Northern Kentucky Cooperative for Educational Services, Inc. functions and is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as a non-profit agency.

Vocational Rehabilitation - The Department of Vocational Rehabilitation contracts with the Northern Kentucky Cooperative for Educational Services to provide vocational assessments to school-aged clients who are eligible for Vocational Rehabilitation services. Referrals are made from the Vocational Rehabilitation counselors to the Center. Assessment information is provided to the schools, students and counselors.

Professional Development Consortium - Nine districts are members of the Professional Development Consortium. The Advisory Committee determines the professional development offerings which are made available in the fall, spring and summer for participating and non-participating districts. Participating districts have established dues formula and session costs for the program.

Technology Consortium - Eight districts participate in the Technology Consortium. The actual costs of participating in the Technology Consortium vary from district to district. The amount depends on how much time and type of service each district wants. Global Business Solutions has agreed to provide the services. A one dollar (\$1.00) administrative charge per hour is added to cover secretary services and other coordination costs involved.

State MOA - This Memorandum of Agreement is for personnel services through the Kentucky Department of Education. It was developed for personnel serving in the Regional Centers who did not have an affiliation with a local school district.

Family Resource - The Memorandum of Agreement is for personnel services through the Kentucky Department of Families and Children. It is for Family and Youth Service Center Consultants who are serving in the Regional Centers.

Teacher Academy - The grant was provided through the Kentucky Department of Education, Division of Professional Development for summer teacher institutes and other professional development offerings that were provided through the Region 4 Service Center.

Model Schools - The Behavior Initiative Model School will provide training and technical assistance to selected schools to support them in their quest to develop proactive, instructional and responsibility-based discipline policies and practices.

Writing Grant - Provides for writing consultants workshop expenses.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

The Cooperative purchased computer equipment during the current year. This Cooperative depreciates computer equipment using the straight-line method over a three year useful life. Depreciation expense for the current year totaled \$1,213. The balance of equipment used by the Cooperative is as follows:

Equipment	\$ 6,066
Accumulated Depreciation	<u>(1,213)</u>
Net Property, Plant and Equipment	<u>\$ 4,853</u>

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2000

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

The Cooperative had uninsured deposits with its financial institutions over the FDIC insurance amount during the current year. The highest balance of uninsured deposits occurred on February 25, 2000. The amount uninsured totaled \$267,442.

NOTE 5 - OTHER

The revenues and expenditures represented in the "Other" column in the Statement of Activity - By Fund are miscellaneous grants which were active during the current year and do not have cash balances at the fiscal year end. These grants were remitted back to the grantor.

SUPPLEMENTAL SCHEDULES

FUND
FINANCIAL STATEMENTS

	<u>GENERAL FUND</u>	<u>CARL PERKINS FUND</u>	<u>IDEA FUND</u>	<u>MODEL SCHOOL</u>	<u>WRITING GRANT</u>	<u>FAMILY RESOURCE</u>
ASSETS						
Cash & Cash Equivalents	\$ (3,734)	\$(35,352)	\$	\$96,747	\$5,816	\$ (46)
Grant Funds Receivable		35,352				1,166
Accounts Receivable	56,839					
Net Property, Plant & Equipment	<u>4,853</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 57,958</u>	<u>\$ </u>	<u>\$ </u>	<u>\$96,747</u>	<u>\$5,816</u>	<u>\$1,120</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts Payable	\$ 11,370	\$	\$	\$ 1,818	\$ 698	\$
Deferred Revenue	<u> </u>	<u> </u>	<u> </u>	<u>94,929</u>	<u>5,118</u>	<u>1,120</u>
TOTAL LIABILITIES	<u>\$ 11,370</u>	<u>\$ </u>	<u>\$ </u>	<u>\$96,747</u>	<u>\$5,816</u>	<u>\$1,120</u>
NET ASSETS						
Unrestricted	<u>\$ 46,588</u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>
Total Net Assets	<u>\$ 46,588</u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 57,958</u>	<u>\$ </u>	<u>\$ </u>	<u>\$96,747</u>	<u>\$5,816</u>	<u>\$1,120</u>

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
STATEMENT OF FINANCIAL POSITION - BY FUND
June 30, 2000

STATE PERSONNEL	VOC REHAB	FIRST STEPS	LEARNING ACADEMY	PHOENIX PROGRAM	FLEXIBLE SPENDING ACCOUNT	TEACHER ACADEMY	PROFESSIONAL DEVELOPMENT	TECHNOLOGY	TOTALS (Memorandum Only)
\$	\$ (4,811) 4,870	\$ (6,929) 6,929	\$ 6,810	\$18,775	\$ (2,537) 21,214	\$64,313	\$ 4,779	\$ 333	\$ 144,164 69,531 56,839 4,853
\$	\$ 59	\$	\$ 6,810	\$18,775	\$18,677	\$64,313	\$ 4,779	\$ 333	\$ 275,387
\$	\$ 59	\$	\$ 6,810	\$ 18,775	\$ 18,677	\$50,510 13,803	\$ 4,779	\$ 333	\$ 64,455 164,344
\$	\$ 59	\$	\$ 6,810	\$18,775	\$18,677	\$64,313	\$ 4,779	\$ 333	\$ 228,799
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 46,588
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 46,588
\$	\$ 59	\$	\$ 6,810	\$18,775	\$18,677	\$64,313	\$ 4,779	\$ 333	\$ 275,387

	<u>GENERAL FUND</u>	<u>CARL PERKINS FUND</u>	<u>IDEA FUND</u>	<u>MODEL SCHOOL</u>	<u>WRITING GRANT</u>	<u>FAMILY RESOURCE</u>	<u>STATE PERSONNEL</u>
REVENUES							
From Local Sources							
Membership Dues Program Services	\$662,434	\$	\$	\$	\$	\$	\$
Earnings on Investments	799						
Other Revenues	965	2,025					
Intergovernmental - State					4,684	172,570	166,039
Intergovernmental - Federal		49,905	341,124	29,987			
TOTAL REVENUES	<u>\$664,198</u>	<u>\$ 51,930</u>	<u>\$ 341,124</u>	<u>\$ 29,987</u>	<u>\$ 4,684</u>	<u>\$172,570</u>	<u>\$ 166,039</u>
EXPENDITURES							
Personnel	\$253,685	\$ 1,221	\$ 151,805	\$ 6,950	\$	\$171,105	\$ 157,351
Audits	2,580	1,000					
Contracted Services	286,668	27,500	116,396				
Tech Serv	75,792		19,307				
Repairs & Maintenance			1,190				
Rental Fees	162						
Student Transportation							
Property Insurance	3,982						
Phone	761		649			39	
Postage	1,970					70	12
Advertising							
Printing`	4,428		5,360			122	
Travel	6,871	3,561	9,747	1,974			
Lodging	3,983			13,888			
General Supplies	3,892		9,097		2,549	804	
Food Services	485						
Books/Periodicals					1,636	430	
Student Activities	8,329		4,000				
Supplies/Materials		8,421	7,975				
Equipment	2,081		13,744				
Dues & Fees	32,113	8,213					
Miscellaneous		801	1,854				286
Depreciation		1,213					
Indirect Costs				7,175	499		8,390
TOTAL EXPENDITURES	<u>\$687,782</u>	<u>\$ 51,930</u>	<u>\$ 341,124</u>	<u>\$ 29,987</u>	<u>\$ 4,684</u>	<u>\$172,570</u>	<u>\$ 166,039</u>
CHANGE IN NET ASSETS	<u>\$(23,584)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
STATEMENT OF ACTIVITY - BY FUND
June 30, 2000

<u>VOC REHAB</u>	<u>FIRST STEPS</u>	<u>LEARNING ACADEMY</u>	<u>PHOENIX PROGRAM</u>	<u>FLEXIBLE SPENDING ACCOUNT</u>	<u>TEACHER ACADEMY</u>	<u>PROFESSIONAL DEVELOPMENT</u>	<u>TECHNOLOGY</u>	<u>OTHER</u>	<u>TOTALS (Memorandum Only)</u>
\$	\$	\$456,791	\$299,280	\$ 88,867	\$	\$ 37,128	\$ 74,926	\$ 39,821	\$1,659,247
3,385	271	59	4,400				47	1,205	2,004
50,218	101,858				110,187			786	11,938
								111,014	716,570
								33,307	454,323
<u>\$ 53,603</u>	<u>\$102,129</u>	<u>\$456,850</u>	<u>\$303,680</u>	<u>\$ 88,867</u>	<u>\$110,187</u>	<u>\$ 37,128</u>	<u>\$ 74,973</u>	<u>\$ 186,133</u>	<u>\$2,844,082</u>
\$ 42,891	\$ 89,001	\$399,558	\$179,828	\$ 54,289	\$	\$ 13,891	\$ 2,000	\$ 3,437	\$1,527,012
		100				300		1,500	5,480
	51	12,533	53,552	1,212	2,150	10,371	62,300	99,326	672,059
		717	180					22,194	118,190
	95	9,590	4,552	727		1,215			17,369
				73					2,251
		228						2,016	228
								4,475	8,457
972	1,692	4,986	1,619	635		517		6,024	17,894
93	446	146	75	1,572		204		3,358	8,009
		722	259				63	1,731	2,712
286	220	6,098	3,172	1,648		2,503		6,279	30,116
800	6,872	2,002	1,916	222		3,564	6	13,103	50,638
									17,871
851	921	32,276	2,724	4,952	3,682	3,909			65,657
	228	973			2,411	3,806		6,550	15,173
384	251	651	3,584	575	10,916		720	6,023	24,450
		527	85						12,941
	308		3,562	43				290	20,599
		12,687	9,400						37,912
	553	50	293						41,222
		1,452	189		87,250	84	67	18,907	110,889
	<u>1,491</u>	<u>1,122</u>	<u>510</u>		<u>4,363</u>	<u>4,532</u>			<u>1,213</u>
<u>\$ 46,277</u>	<u>\$102,129</u>	<u>\$486,418</u>	<u>\$265,500</u>	<u>\$ 65,948</u>	<u>\$110,772</u>	<u>\$ 44,896</u>	<u>\$ 65,155</u>	<u>\$ 195,213</u>	<u>\$2,836,424</u>
<u>\$ 7,326</u>	<u>\$</u>	<u>\$(29,568)</u>	<u>\$ 38,180</u>	<u>\$ 22,919</u>	<u>\$(585)</u>	<u>\$(7,768)</u>	<u>\$ 9,818</u>	<u>\$(9,080)</u>	<u>\$ 7,658</u>

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROLS
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Northern Kentucky Cooperative for Educational Services, Inc.
Lexington, Kentucky

We have audited the financial statements of Northern Kentucky Cooperative for Educational Services, Inc. as of and for the year ended June 30, 2000 and have issued our report thereon dated November 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Northern Kentucky Cooperative for Educational Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northern Kentucky Cooperative for Educational Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weaknesses in a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management and federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Charles F. Mitchell Co.

November 18, 2000

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Northern Kentucky Cooperative for Educational Services, Inc.
Lexington, Kentucky

Compliance

We have audited the compliance of Northern Kentucky Cooperative for Educational Services, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Northern Kentucky Cooperative for Educational Services, Inc.'s management. Our responsibility is to express an opinion on Northern Kentucky Cooperative for Educational Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northern Kentucky Cooperative for Educational Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northern Kentucky Cooperative for Educational Services, Inc.'s compliance with those requirements.

In our opinion Northern Kentucky Cooperative for Educational Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

The management of Northern Kentucky Cooperative for Educational Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northern Kentucky Cooperative for Educational Services, Inc.'s control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Charles F. Mitchell Co.

November 18, 2000

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2000

<u>Grantor</u>	<u>Grant</u>	<u>Federal CFDA Number</u>	<u>Federal Award Expenditures</u>
Department of Education	Carl Perkins	84.048	\$ 51,930
Department of Education	IDEA	84.027	341,124
Department of Education	Model School		<u>29,987</u>
	Total Grant Expenditures		<u>\$ 423,041</u>

NORTHERN KENTUCKY COOPERATIVE FOR EDUCATIONAL SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2000

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Statement of Financial Position
Statement of Activities
Statement of Cash Flows

Unqualified
Disclaimer
Disclaimer

Internal control over financial reporting:

Material weaknesses identified?

_____ Yes X No

Reportable conditions identified not
considered to be material weaknesses?

_____ Yes X None Reported

Noncompliance material to financial
statements noted?

_____ Yes X No

Federal Awards

IDEA Basic Special Education

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

Northern Kentucky Cooperative for Educational Services, Inc.
Highland Heights, Kentucky

We have examined the financial statements of Northern Kentucky Cooperative for Educational Services, Inc. for the year ended June 30, 2000 and have issued our report thereon dated November 18, 2000. As part of our examination, we made a study and evaluation of the Northern Kentucky Cooperative for Educational Services, Inc.'s system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Northern Kentucky Cooperative for Educational Services, Inc.'s financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Northern Kentucky Cooperative for Educational Services, Inc. is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the system to dispatch its duties.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Northern Kentucky Cooperative for Educational Services, Inc. taken as a whole. We noted no matters involving internal control over financial reporting and its operation that we considered to be material weaknesses.

However, during our audit, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency.

1. The Cooperative maintained cash balances in excess of the FDIC insured limit of 100,000 at certain times during the fiscal year.

We recommend that undue concentration of risk be avoided and excess funds be invested in accordance with strict investment policy.

We have enjoyed working with the management and staff of the Northern Kentucky Cooperative for Educational Services, Inc. and look forward to a continuing, mutually productive relationship. Please call us if you have any questions concerning this letter or if we can be of any other assistance.

Respectfully submitted:

Charles T. Mitchell Co.

Charles T. Mitchell Co.
November 18, 2000